

The Impact of the Asian Crisis on Labor, Work and Employment*

JUDE ESGUERRA

The Asian crisis has done more than keep Filipinos from spending unwisely. If the region-wide recession was no longer sufficient proof of how bad things are, one should consider the facts kept hidden in unemployment figures. The official line maintains that the Philippine economy is in good shape, good enough to significantly bring down 1998 first quarter unemployment figures into impressive second quarter ones. What is not made plain is that the number of unemployed Filipinos looking for work did not include those who were retrenched (but still optimistic) and those who had given up on the shrinking job market. In truth, the crisis did more than just downsize the workforce, it has also exposed the shortcomings of President Joseph Estrada's government and the Central Bank in handling the effects of the crisis. On vital fiscal policies the administration appears to be at odds with itself. Not assured of sound or sustainable investment conditions and consumer demand, businesses are left with very little prospect of reopening their factories and shops until the region recovers from the crisis. This makes for an economic disaster that hits labor where it hurts.

The Crisis of Unemployment

The economic crisis has battered the Asian region for more than one year and a half now. Its effects have been transmitted to Philippine workers through many channels. When the peso fell to an all-time low against the dollar, the cost of very basic commodities, imported goods and almost everything else skyrocketed. Belts had to be tightened, if not sold. Had the prices of crude oil not gone down in July 1998 indeed there would have been very little reason to celebrate Christmas.

When interest went up and credit dried up, those who did not transact with commercial banking institutions saw their "five-six" become "five-seven." Farmers sold their carabaos and mortgaged their lands and families stopped investing in the education of their children. The middle class competed with the poor for vital public services even as the government allocation for these services shrunk by an estimated P100 billion for 1998 alone due to continuing payment on public foreign and

* Paper read at the Freedom From Debt Coalition 10th Anniversary Seminars, held at the School of Labor and Industrial Relations, University of the Philippines, Diliman, Quezon City, 18 November 1998.

domestic debts and the substantial drop in the revenue of the Bureau of Customs and the Bureau of Internal Revenue. Power, water, telecommunication and transport rates passed the burden of servicing foreign debts to consumers. Businesses reduced wages or collapsed under the weight of losses and debts.

The Truly Unemployed

The country's unemployment rate in July 1998 went down to 8.9% from 13.3 in April 1998 (Labor Force Surveys). At first blush, it would seem that the economy is doing well. Some of us will no doubt find in this a confirmation of long-held suspicions that "government statistics lie more often than they enlighten." (See Table 1.)

Table 1: Employment/Unemployment Rate in the Philippines					
	July 1998	April 1998	Jan. 1998	Oct. 1997	July 1997
Employment (1,000)	27,856	27,837	27,689	27,888	27,531
Rate (%)	91.1	86.7	91.6	92.1	91.3
Unemployment (1,000)	2,737	4,274	2,551	2,377	2,623
Rate (%)	8.9	13.3	8.4	7.9	8.7

Source: Labor Force Surveys, 1997 and 1998

There are many things unemployment figures are not designed to report. By design the unemployment rate reports on the number of people in the labor force who are actively in search of work. It does not count people who are on vacation, enjoying their leisure. Fair enough. When an economy is moving along smoothly, no significant complications and misrepresentations arise. The unemployment rate is able to provide useful information. In times of crisis, however, it is important to note that the unemployment rate does not count people who have already given up on their search for a job that suits them. It also fails to include people who have been retrenched but are waiting to return to work when times get better for

the company that employs them. In that sense, the unemployment figures fail to convey vital information.

Thus, while the Labor Force Surveys show that from April 1998 to July 1998 the number of unemployed people declined from 4.274 million to 2.737 million the report informs us that this was due mainly to the 703,000 workers who believe that there was no work available for them and the 766,000 workers who think they will be rehired. Notice that between April and July 1998 the labor force (“unemployed” plus employed) was smaller by 1.518 million people. Even under normal circumstances, this number rises due to the constant stream of new graduates entering the labor force.

The number of workers in industry declined.¹ The agriculture, fishery and forestry sector absorbed most of the additional employed persons from April 1998 to July 1998 as the El Niño phenomenon eased up²; the number of workers in services, on the other hand, also declined.³ Having been accustomed to the stylized facts of repeated crises over the decades, many of us have come to expect the service sector to welcome the refugees from the formal sector. This time, even the service sector seems to have been severely affected.

From July 1997 to July 1998 five of the 16 regions registered increases in net total employment levels despite the closures of many formal establishments. Central Luzon posted the highest increase of 103,000. This was followed by Southern Tagalog (88,000), Bicol (59,000) and Northern Mindanao (55,000). This does not necessarily mean that they were able to absorb the additional entrants into the labor force.

From July 1997 to July 1998, employment declined in Western Mindanao (30,000), Eastern Visayas (25,000), Central Visayas (19,000), Cagayan Valley (15,000), and Ilocos Region (11,000).

Evidence that the industrial and service sectors are also hard-hit by the crisis are provided by the figures released by the Department of Labor and Employment (through the Bureau of Labor and Employment Statistics). Table 2 shows the number of workers affected by permanent and temporary layoffs as well as rotations as reported by establishments the whole of 1996 and 1997 and the first five months of 1998. It is clear that the total number of establishments reporting closure/retranchment and

the number of workers affected by permanent and temporary layoffs as well as rotation of the former have exceeded the corresponding figures of the former. The figures for layoffs/rotations for the first five months of 1998 are almost as large as the figures for the entire first three quarters of 1996. The implication therefore is that the number of layoffs/rotations in 1998 will be significantly higher than the figures for 1996 and 1997.

Table 3 provides the regional distribution of the workers affected by reported layoffs and rotation in formal sector establishments. It can be seen that Metro Manila accounts for more than 50% of the workers affected, followed by Southern Tagalog, Central Luzon and Central Visayas. Notice that the regions most affected are those surrounding growth centers -- either Metro Manila or Metro Cebu.

Table 4 gives a breakdown by industry of 1,126 firms and workers affected from January 1 to April 30, 1998. It can be seen that the biggest sources of layoffs are from the manufacturing sector, followed by construction, wholesale and retail trade, and financing/insurance/real estate/business services.⁴

How the Jobs were Lost

Jobs are still the first line of defense for workers. We need to ask why they are being lost. We need to ask how and where they can be protected and created. And we need to know which economic policies matter and what kinds of political choices these entail.

Past Mistakes

Many of the establishments that have had to close down committed the error of ignoring the warnings,⁵ believing Central Bank Governor Gabriel Singson and President Ramos when they said that “the best is yet to come” and when they gave assurances that the exchange rate will remain stable in the vicinity of P27:\$ 1. In itself this cheap dollar/stable peso/high interest rate arrangement was already wreaking havoc to the country’s import-competing industries and to all sectors of the export industry save for the dollar-intensive and capital-intensive electronics enclaves. The coffin was sealed when the monetary authorities allowed cheap dollar inflows to move into the real estate sector, consumer lending, stock market speculation and other ventures that do not earn their incomes in dollars.

On the other hand, because the currencies of our neighbors have also depreciated, agriculture, the export sector and the import-competing sectors will have a fighting chance in the future only if the Estrada administration makes a definitive break with the past and demonstrates its resolve in pursuing its low interest rate-expensive dollar policy. Something has to give.

Policy Uncertainty

The impetus for job creation through new investments will have to come from agriculture, the import competing industries, and high value-added exports, particularly in areas like food and food processing. These are the economic sectors that are well placed to employ the resources that the Philippines have in abundance: unemployed labor and idle land. As for labor, employers will be compelled to bid up wages only when the unemployed have been soaked up and rendered scarce through employment in these industries. However, these investors and their banks need to know whether the low interest rate-expensive dollar policy will prevail. It does not make sense to invest, otherwise.

The Estrada administration is a divided house. There are several confidence building signals Estrada can give to exporters, import competing firms and the agricultural sector. First would be to replace Central Bank's Singson. Second, grant powers that suit the exalted title of the present director-general of National Economic Development Authority (NEDA) in as far as the coordination of broad fiscal, monetary and exchange rate policies are concerned. Third, lend political credibility and levity to the changes by firmly articulating the link between these moves and providing a clear meaning and direction to what is now only a slogan: "*Erap para sa mahirap*" (Erap for the poor).

The Weak Market

People lose their jobs when the owners of productive forces have no prospect of selling their potential output. Produce cannot be sold when government has lost P100 billion, when the fortunes of the new rich fell with the Philippine stock market, when jobs have evaporated and people have less money in their pockets and have limited credit lines, when investors do not want to invest because of policy uncertainty and when those who would like to invest cannot do so because of the high interest rate policy bias of the IMF. Among these, it is the increased spending by

the government through foreign and domestic borrowing and an official decision to relax monetary policy that will be crucial.

Capital-Labor Rift

The crisis that hit Asia cannot be understood solely through reference to past errors. Although devaluations were seen as unavoidable consequences of wrong and unsustainable policies, no one anticipated either the magnitude of the devaluations or the strength of the second round effects in terms of unemployment, fiscal positions and bank losses. In this situation even viable firms that were worth preserving, folded up for reasons well-known, the Philippine Airlines is not the perfect illustrative case. However, it is paradigmatic; it was important to save the company but the resolution that was reached (to be very kind) was not one of mutual accommodation and sacrifice. Under such circumstances, however, short-term sacrifices for long-term goals are central elements of a program for recovery. Clearly, this discussion has not yet been pursued to the extent and with the deliberateness necessary. One thing, however, is certain. That crisis has revealed that the new president has no qualms in trading off hard-won political rights for economic benefits (assuming *arguendo* that such potential trade-offs exist). The other principle that should be worth articulating and exploring is the following: mutually beneficial bargains⁶ are more likely to take place if the parties at the bargaining table are approximately of equal strength. Both parties will be more confident in their capacity to enforce agreements once they are reached.

When a protracted economic shakedown of this magnitude strikes, there is a genuine fear that nobody will be spared from difficulties. Safety nets immediately and persistently come to mind. The poverty alleviation fund (PAF) that the Ramos administration mobilized in February 1998 was worth P5 billion. The design and scope of this effort has been assessed and found wanting.⁷ The Estrada government is fully aware of the need to increase this special allocation but, unfortunately does not have the means to do so. As mentioned earlier the combined effect of higher interest payments on foreign and domestic government debts as well as lost revenues has amounted to P100 billion for 1998 alone — 20 times the PAF. The more expansive budget deficits being contemplated will only be enough to keep public spending at its programmed level. Safety nets should be provided to the greatest extent possible.

Pathways to the Peripheries⁸

The problems of trade unions have always been more familiar to us than the problems encountered by the rest of people who toil. But think about this, only 12 % of the labor force is organized into trade unions; only a fraction of the labor force can potentially be organized along trade union lines because in many other situations there are no stable employer-employee relationships. The poorest segments of the working people can never even hope to be part of unions. So what is to be done?

Perhaps there can be no single answer. There should be as many answers as there are situations where poor workers find themselves. Workers who find themselves precariously located at the margins of the factory system — *pakyaw* and “subcon” workers are among the most vulnerable members of the working class in this period of crisis. Most of us are clueless as to what constitutes a sufficiently useful public policy agenda for the informal sector. Key policy proposals with regard to Filipino peasant folk have been forcefully articulated — evidence of the confidence derived from decades of struggle for social justice. But even here important issues are being raised: the poorest of the poor among the rural folk are people who do not even have access to land, not even as tenants nor as sharecroppers. Will we just hope that, somehow, the huge resources being devoted to agrarian reform will trickle down to them? El Niño has also given us the opportunity to understand famines and food shortages at close range. The dominant advocacy stance for “food security as food self-sufficiency, while not without its compelling arguments, has yet to come to terms with the fact that whole communities went hungry not because of crop failure and its consequence on food supply. Supply was abundant. It was rather the failure of incomes and entitlements that blocked people’s access to food.

The devaluation of the peso in itself — if it is going to be a part of the solution to long-term development dilemmas of the country — will bring many of these issues to a head. One scenario for the country a year or two from today devaluation involves any or some of these shifts:

- 1) The export sector can begin showing signs of vitality not only in the electronics sector but also in many other labor intensive manufactures. Firms engaged in exports are more likely to be employing informal work

force⁹ This will multiply the number of vulnerable workers who will be beyond the reach of traditional unionism.

2) Investments will gradually shift away from the non-tradeables (like real estate speculation), into agriculture. There will naturally be many opportunities for small holder agriculture to produce for the export markets, posing another “problem” for the food security advocacy.

3) The completion of the remaining phases of agrarian reform (in four years?) will reveal the merits — but the limitations as well of agrarian reform — as THE public policy advocacy agenda for the rural poor.

4) The build-up of a constituency for the de-protection of agriculture (sugar, corn and rice) will put to the fore questions, not only of food security, but also of ways and means for creating employment for the affected sectors (if this lobby ultimately gets what it wants). ❁

Endnotes

- 1 Employment in industry decreased by 286,000 (-6.0%) from April 1998 to July 1998. Own-account workers decreased by 142,000 wage and salary workers by 76 thousand and unpaid family workers by 68,000.
- 2 Employment in agriculture increased by 573,000 (5.5%) from April 1998 to July 1998 with gains of 318,000 own-account workers, 176,000 unpaid family workers, and 81,000 wage and salary worker.
- 3 Employment in services decreased by 260,000 (-2. 1%) from April 1998 to July 1998 with wage and salary workers declining by 121,000 own-account workers by 73,000; and unpaid family workers by 69,000.
- 4 Taken from Dr. Joseph Y. Lim “Social Impact of the Asian Crisis,” UNDP.(1998) The effect on own-account and unpaid family workers are not reflected here.
- 5 See the pre-crisis writings of economists Joseph Lim, Emmanuel de Dios, Manuel Montes, Raul Fabelia Calixto Chikiamco, Solita Monsod, Maitet Diokno-Pascual, Action for Economic Reforms, IPD Political Briefs, Paul Krugman (on the Mexico crisis), McKinnon and Pil (on the overborrowing in Asia).
- 6 Or shall we say “*social compacts.*”
- 7 Celia Reyes and Edwin del Valle Povert Alleviation and Equity Promotion. Discussion paper series no. 98-06. Philippine Institute for Development Studies. (June 1998)
- 8 Pathways from the Periphery by Albert Hirschman
- 9 See statistics on establishments Engaged in Subcontracting Vol. 2, no.14, Labstat updates, BLES. (1996-1997)

Table 2: Establishments Resorting to Closure/Retrenchment due to Economic Reasons and Workers Affected: 1996-1998 (January 1 - May 31, 1998)

Year	Establishments Reporting				Total	Workers Affected		
	Total	Closure	Retrenchment	Rotation, etc.		Permanent Layoff	Temporary Layoff	Rotation
1996	1,077^a	351^a	736^a	39^a	80,701	47,008	29,847	4,206
First Quarter	336	75	279	12	20,708	14,020	5,248	1,440
Second Quarter	276	72	223	10	19,615	8,611	10,667	337
Third Quarter	347	120	234	19	23,904	15,629	6,661	1,614
Fourth Quarter	252	94	173	5	16,474	8,748	6,911	815
1997	1,103^a	320^a	790^a	46^a	59,861	37,914	18,501	3,446
First Quarter	309	106	235	14	15,848	12,201	2,596	1,051
Second Quarter	271	78	201	12	17,265	9,260	7,177	828
Third Quarter	289	63	255	9	11,740	7,168	3,802	770
Fourth Quarter	337	84	268	14	15,008	9,285	4,926	797
1998 ^p								
First Quarter	1,055	200	784	71	43,712	18,566	20,824	4,322
Jan. 1 - May 31	1,324				62,302	29,838	22,246	10,002

^a Details may not add up to total due to multiple reporting
^p Preliminary data
Source: DOLE BLES

**Table 3: Establishments Resorting to Closure/Retrenchment
(January 1 - May 31, 1998)**

Region	Number of Estabs.	Actual Workers			Total Workers	%
		Permanent	Temporary	Rotation		
Philippines	1,324	29,838	22,462	10,002	62,302	100
		47.9%	36.1%	16.1%		
NCR	815	15,117	10,448	7,748	33,313	53.5
Cordillera Autonomous Region	14	348		118	466	0.7
Region I (Ilocos)	12	55		13	68	0.7
Region II (Cagayan Valley)	2	3	29		32	0.1
Region III (Central Luzon)	62	3,195	2,118	363	5,676	9.1
Region IV (Southern Tagalog)	119	5,455	2,902	1,135	9,492	15.2
Region V (Bicol)	8	650	3		653	1.0
Region VI (Western Visayas)	97	1,427	24	490	1,941	3.1
Region VII (Central Visayas)	64	821	3,191	92	4,104	6.6
Region VIII (Eastern Visayas)	19	110	9		119	0.2
Region IX (Western Mindanao)	18	277	1,684		1,961	3.1
Region X (Northern Mindanao)	33	753	985	22	1,760	2.8
Region XI (Southern Mindanao)	38	603	661	21	1,285	2.1
Region XII (Central Mindanao)	6	125			125	0.2
Caraga	17	899	408		1,307	2.1

Source: DOLE-BLES

**Table 4: Establishments Resorting to Closure/Retrenchment due to Economic Reasons and Workers Affected
By Industry: January 1 - April 30, 1998)**

Industry	Total Number of Estab.	%	Total Number of Workers Affected	%	Permanent	Temporary	Rotation
All Industries	1,126	100	54,514	100	24,345	21,345	8,848
Agriculture, Fishery & Forestry	31	2.8	1,234	2.3	1,022	212	
Industry	513	45.6	42,051	77.1	15,919	18,668	7,464
Mining and Quarrying	22	2.0	1,042	1.9	992	43	7
Manufacturing	423	37.6	35,400	64.9	12,913	16,163	6,324
Electricity, Gas and Water	5	0.4	44	.01	42	2	
Construction	63	5.6	5,565	10.2	1,972	2,460	1,133
Services	582	51.7	11,229	20.6	7,380	2,465	1,384
Wholesale and Retail Trade	221	19.6	4,247	7.8	2,607	955	685
Transpo., Storage, and Comm.	85	7.5	2,056	3.8	1,765	217	74
Financing, Insure., Real Estate, Bus Ser.	170	15.1	2,804	5.1	1,573	778	453
Community, Social, Personal Serv.	106	9.4	2,122	3.9	1,435	515	172

Source: DOLE BLES

Table 5: Summary Statistics on Establishments Engaged in Export 1996-1997

Indicator	Export-oriented Establishments							
	Total		Number		% to total		% Distribution of	
	Establishments	Establishments	1996	1997	1996	1997	1996	1997
1. Industry	35,200	43,400	3,300	3,540	9.4	8.2	100.0	100.0
Agriculture, fishery and forestry	600	1,000	100	100	16.7	10.0	3.0	2.8
Mining and quarrying	200	100	100	*	50.0	-	3.0	-
Manufacturing	9,100	11,300	1,600	2,100	17.6	18.6	48.5	59.3
Electricity, gas and water	300	500	*	*	-	-	-	-
Construction	800	900	*	*	-	-	-	-
Wholesale and retail trade	8,400	10,200	600	500	7.1	4.9	18.2	14.1
Transportation, storage and communication	1,300	1,800	100	100	7.7	5.6	3.0	2.8
Financing, insurance, real estate and business services	4,900	6,300	600	400	12.2	6.3	18.2	11.3
Community, social and personal services	9,600	11,200	200	200	2.1	1.8	6.1	5.6
2. Region	35,200	43,400	3,300	3,540	9.4	8.2	100.0	100.0
National Capital Region	17,900	21,200	2,000	1,900	11.2	9.0	60.6	53.7
Cordillera Administrative Region	400	500	*	*	-	-	-	-
Region I	1,000	1,400	100	100	10.0	7.1	3.0	2.8
Region II	400	600	*	*	-	-	-	-
Region III	2,200	2,900	200	200	9.1	6.9	6.1	5.6
Region IV	3,400	4,400	300	600	8.8	13.6	9.1	16.9
Region V	900	1,000	*	*	-	-	-	-
Region VI	2,000	2,500	100	100	5.0	4.0	3.0	2.8
Region VII	2,100	2,400	200	200	9.5	8.3	6.1	5.6
Region VIII	500	600	*	*	-	-	-	-
Region IX	600	900	100	100	16.7	11.1	3.0	2.8
Region X	1,200	1,600	100	100	8.3	6.3	3.0	2.8
Region XI	2,000	2,700	200	200	10.0	7.4	6.1	5.6
Region XII	600	700	*	*	-	-	-	-
ARMM	-	100	-	*	-	-	-	-
3. Employment Size	35,200	43,400	3,300	3,540	9.4	8.2	100.0	100.0
10-19	17,800	22,800	1,000	900	5.6	3.9	30.3	25.4
20-49	10,300	11,900	900	900	8.7	7.6	27.3	25.4
50-99	3,200	3,900	400	600	12.5	15.4	12.1	16.9
100 and over	3,900	4,800	1,000	1,200	25.6	25.0	30.3	33.9
4. Selected Specific Groups of Workers								
Female workers	33,700	41,400	3,200	3,300	9.5	8.0	97.0	93.2
Minimum wage earners	20,900	25,500	1,600	2,000	7.7	7.8	48.5	56.5
Young workers	16,600	20,700	1,900	1,700	11.4	8.2	57.6	48.0
Unionized workers	6,000	7,000	1,200	1,100	20.0	15.7	36.4	31.1
Workers covered by CBA	5,600	6,500	1,200	1,100	21.4	16.9	36.4	31.1

*Less than 100

Note: Details may not add up to totals due to rounding of figures